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Diaspora Impact on Foreign Direct Investment: State Institutions on Diaspora Engagement

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Abstract

In a globalized and interdependent world, every country needs cooperation and partnership. In the framework of this mission, every state undertakes policies and reforms that impose radical internal changes. Supporting these changes requires financial and human resources that states are trying to secure through various sources. Diaspora is in fact the first catalyst that provides incentives to the economy to meet national needs with financial and human resources and that helps overcome relative isolation from global trade flows. Through the engagement of the diaspora, states are extending their political and administrative functions beyond national borders and through agreements are improving relationships with other countries. This stimulates the interest of foreign investors who are always looking for new markets, less expensive, rich in natural sources. FDI through financial capital and foreign currency it brings, technological innovation, human capital development, trade opening contributes to the economic growth of the country. In other words, the state with the power given by law can create a bridge of communication between these two fundamentally different phenomena. So, the purpose of this paper is to investigate the relationship between the institutions created to support the diaspora, with the level of FDI flows. Then we go beyond this analysis to study if the type of institution engaged in this issue matters. We use data collected through different public data sources and panel econometric models are estimated for a sample of 20 countries over a 30-year period (1990-2020). Panel data analysis was conducted, implementing three different models (Pooled Model, Fixed Effect, Random Effect) Our results initially show that diaspora institution is a variable positively correlated with the volume of FDI and statistically significant. Second, based on the results, we conclude that, regardless of the type of institution engaged in the issue of diaspora, there is a statistically significant positive effect on the attraction of FDI.

Keywords: FDI; diaspora institution; market size; inflation; infrastructure; human capital; panel data analysis

Introduction

Declining transportation and communication costs, reduced barriers between states, and increasedpolitical and economic cooperation between them have led to a rapid increase in the mobility of people, goods, capital, and knowledge worldwide. So, on the one hand we have people leaving a country in search of better opportunities and on the other hand investors entering that country in search of new, less costly markets, rich in natural resources. Although these two phenomena seemlike two different sides of a coin, they should actually be considered as complementary in meet a country's needs for financial capital, technological innovation, human capital development, overcoming relative isolation from global trade flows. Why do we believe that these two phenomena can have mutual effects between them? We know that people seek to emigrate generally motivated by difficult economic conditions, in search of a better life and more opportunities. Through the introduction of FDI flows the host country meets the needs for financialcapital, new businesses are presented and transferred innovative technology.

FDI are looking for workers and providing training for them. All of these can be seen as resources that improve people's budget constraints, meet their professional needs and consequently we expect that emigration efforts to be reduced. The effects of FDI in the host country and especially on the emigration phenomenon are not standard and the same everywhere. This depends on the characteristics of the country, the level of qualification of the workforce in the country, the institutional quality of the host country and many, many other factors. If we look at the other sideof the coin, immigrants themselves can influence the actions of foreign investors. Why? We know that when FDI decides to invest abroad in addition to the costs of geographical distance they willface in the host country the contextual distance, which refers to the environmental differences between the country of origin and the foreign country expressed in terms of cultural, administrativeand economic distance (Beugelsdijk, Ambos et al., 2018; Beugelsdijk et al., 2017). The presence of people who know both sides of a border, such as members of the diaspora, who know the language of the country of origin and the country where they emigrated, know market structures, consumer preferences, business ethics, potential sectors, recognize the legal regime in both economies can contribute and stimulate mutually beneficial international transactions.

In an increasingly globalized world, the movement of people is a reality that cannot be changed and cooperation between states is a necessity that imposes radical changes for the peoples of the world to be unified in a single society and to function together. Thus, in an ever-moving world where some leave and some enter with the common goal, the realization of their objectives, whatremains for the state as the iron hand of the law is to ensure the proper functioning of society.

Exactly what we want to address in this study is these relationships diaspora-state-foreign investors. This paper is unique in first that it examines how a large number of countries relate to their diaspora. Unlike the extensive literature of different authors who have analyzed specific casesof how to connect with their diaspora, we present a broad overview of several countries studied simultaneously, with different histories and developments. As a criterion for the selection of countries is their level of development in terms of GDP, the history of migration (level of emigrantsas % of the population of that country) and the level of remittances received from the country of origin as % of GDP. This combination of factors is not unintentional, we want the study panorama to be as complete as possible to include developed and developing countries and how they are dealing with this issue with their diaspora. This analysis has served us to construct our variable ofinterest "diaspora institutions". Second, if so far the studies have focused generally on the qualityof state institutions, we will empirically show the influence and role of institutions dedicated to the diaspora with the hope that the results of this study will be a message to the policy makers of these countries, about the importance of engaging with institutions dedicated to the diaspora not only as a basic task of any state to support its citizens everywhere, but for understand their impactas ambassadors representing their country of origin in the international arena.

So, our purpose in this paper is to find out if there is a connection between the government's commitment to institutions for the diaspora in attracting and motivating foreign investors in these countries. Are governments contributing, through the involvement of part of the state apparatus to the issue of immigration and the diaspora, also in attracting a higher influx of foreign investment? The motivation that drives us to conduct such a study derives from the importance of both FDI flows and the diaspora as pillars that have kept the economies of the countries afloat, alleviated poverty and today are contributing to their radical transformation. We have studied ten African countries and ten Asian countries. These countries have been analyzed from 1990-2020, as this period coincides with the moments when the first changes in organizational structures and engagement in the issue of immigration begin. We used different public data sources for data collection, such as the World Bank (WB), The Global Economy, United Nations Conference on Trade and Development (UNCTAD), United Nations Department of Economic and Social Affairs (UN DESA) and European Union Global Diaspora Facility (EUDiF) and a panel data are estimated fora sample of 20 countries over a 30 years period.

The paper is structured as follows. We first do a brief review of the literature to better understand the channels through which these two phenomena are interrelated. Second, we describe the empirical methodology of the study. Third we describe the variables selected to include in the model, the expected effects of each of them and the source from which these data are obtained. Insection four we present the results of

the study and at the end we discuss and conclude with somerecommendations based on the findings.

1. Literature Review

Migration and foreign direct investment are two increasingly important aspects of globalization, where each can affect the other. So, we start our analysis with the study of literature that reveals the forms in which they can affect each other. In the first stand of the literature, we will see the impact of foreign direct investment on migration. FDI is considered a major catalyst for development. For the host country they represent financial capital and foreign currency, present new businesses and transfer innovative technologies. First at the macro level this will means into opportunities for economic development of the host country. (See Sookram et all.,2022; Haq 2022;Kulu et all., 2021; Wang et all., 2021; Okwu et al., 2020; Nguyen et all., 2020; Tsagkanos et al. 2019; Gungor and Ringim, 2017; Melnyk et al. 2014). Watching this in the smallest of each individual this means better living opportunities by easing the budget constraint of potential migrants. FDI could affect emigration in multiple ways. An inflow of capital into a country increases the capital to labor ratio, thereby raising the demand for labor and its return. Creating new businesses FDI creates new jobs. Numerous studies have confirmed that FDI also offers relatively higher salaries than local businesses (Bircan, 2013; Earle et al., 2012; Huttenen, 2007; Heyman, 2007). Consequently, FDI, through new jobs and high wages, can reduce emigration efforts. Employment in new businesses and involvement in more complex processes with innovative technologies creates opportunities to grow professionally. (H. Nguyen et al 2020; V. Kheng et al 2017; Su &Liu 2016; M. Azam, et all 2015; D. Gittens, 2013) Indirectly again FDI meet a need of the people leading them to emigrate, professional growth / better career opportunities.

FDI through the demand for skilled workers affects the level of education (Fredriksson, 2020) On the one hand being more educated and on the other hand FDI by providinginformation about the destination country (country of origin of FDI), by offering jobs, training them in countries of origin can create potential contacts that can encourage employees to emigrate(Javorcik et al., 2011, Berthélemy et al., 2009). So, the literature shows that FDI can affect immigration in several ways by encouraging or discourage it. If we move to a wider spectrum, FDIaffects the activity of local firms. FDI can affect local firms through four mechanisms namely, the demonstration mechanism (i.e., domestic firms identify and assimilate technological knowledge or practices demonstrated by foreign firms), the employee mobility mechanism (i.e., domestic firms employ local employees who previously worked for and were trained by foreign firms), thebusiness linkage mechanism (i.e., technological knowledge can be transferred to domestic firms who use the same supplier or distributors as foreign firms), and the competitive pressure mechanism (i.e., the superiority of foreign firms can create pressure on domestic firms to push them to update their technology)

(Chena,et all., 2020) Through all these forms FDI can help local firms overcome relative isolation and enter international markets. In other words, FDI influences from the core of a society that are its citizens, in their activities to the governmental level that impose radical changes and agreements to create a favorable business environment. (Kulu et al., 2021)

In the second stand let's see the other side of the coin, the impact of migration on investment (foreign direct investment). We know that when FDI decides to invest abroad, in addition to the costs of geographical distance, they will face in the host country the contextual distance, which refers to the environmental differences between the country of origin and the foreign country, expressed in terms cultural, administrative and economic distance (Beugelsdijk, Ambos et al., 2018; Beugelsdijk et al., 2017). The presence of immigrants, as people who know the countries atthe same time can facilitate international economic transactions. Diaspora members can help FDIovercome language and cultural difficulties by recognizing both countries at the same time (see Matthias Lucke and Tobias Stohr,2018) Members of the diaspora, by better understanding the market structure and legal framework of their country of origin, can help foreign investors obtainthe necessary information before investing in the host country. (Javorcik, Ozden, Spatareanu, € &Neagu,2011). Members of the diaspora having the advantage of knowing the investment environment in their country of origin can provide the necessary information to foreign investors to reduce the risk of expropriation (Leblang, 2011). In other words, the strong link between migrants and FDI lies in the fact that they represent information channels for foreign investors.

Through the social ties that diaspora members maintain in their home country, it can help companies identify business opportunities, local tastes and foreign preferences, and can even help investors find joint venture partners. The positive association between ethnic networks and FDI has already been found by many papers (see Dany, 2020; Cuadros et all., 2019; Burchardi, Chaney, & Hassan, 2016; Federici & Giannetti, 2010; Foad, 2012; Murat et all., 2008) However, the role of migrants is not the same as long as they are different in personal characteristics, the way of emigration and the opportunities they have had to integrate in the host country and consequently in the potential to influence the host country. In this logical line Cuadros et al., 2019define the importance of the working position of migrants in promoting Foreign Direct Investment. The aims of this study are analysis the role played by migrants' occupations in influencing FDI, with empirical evidence in a multi-country gravity framework. The results show that highly skilled migrants, individuals born in the investor's home / host country, who occupy managerial or professional positions in the host / investment country positively influence the promotion of FDI in that country. The presence of immigrants with a high level of professionalism increases the potential for reducing transaction costs through access to wider information on foreign markets aswell as through personal business contacts. Through accumulated

capital abroad, gained experience and possible contacts, diaspora members can not only influence the firms where they are employed but can also be entrepreneurs themselves.

A special form of foreign direct investmentis those owned by companies or managed by members of the diaspora. DUIs are seen as the "firstmovers" in a country because of the advantages they have in terms of culture, language, organizational structure, legal framework, potential sectors based on information from social networks in the country of origin. etc. Through their activities in the country of origin they can help overcome the risk perceived from abroad and motivate foreign investors to make investments in these countries. (Naujoks et al., 2020) So immigrants can act as ambassadors of their country oforigin and motivate FDI to invest in their homeland. Thus, for example, Parsons and Vezina in 2018 utilizing a unique event in human history, the exodus of the people of the Vietnamese Boat,showed the role played by immigrants in the resumption of bilateral trade between Vietnam and the US. Between 1975 and 1994, an estimated 1.4 million Vietnamese refugees moved to the United States. In the mid-1990s the US imposed a full trade embargo on Vietnam. After the liftingof trade restrictions in 1994, US exports to Vietnam increased more in the US countries with the largest Vietnamese population, evidence of the pro-trade causal effect of migrants, i.e., migrant networks promote trade. The results show that US exports going to Vietnam over the period 1995–2010 grew most in those US states with larger Vietnamese populations. Specifically, 1995-cross-section results suggest that a 10% increase in the Vietnamese network raises exports to Vietnam by between 4.5% and 14%.

Members of the diaspora can also invest in origin themselves or can bring products of origin to international markets. In this case the diaspora serves multifaceted and often hybrid roles betweenconsumer–distributor– marketer, acting as unique bridges across markets. (Elo et all., 2019; Minto-Coy, 2018; Riddle and Brinkerhoff, 2011; Newland and Taylor, 2010). Specifically, Elo et all., in2019 empirically, explored the spread of three ethnic products in foreign markets, respectively thesauna from Finland as a service deeply ingrained in Finnish culture and lifestyle, patty from Jamaica, as the fastest food popular of this country and Pastel de nata from Portugal, a cream cakethat is served warm with cinnamon and baked in a wood oven. The purpose of this study was to identify the role of diaspora networks in the dissemination of ethnic products internationally. The results of this study affirmed that the role of diaspora networks in the dissemination of ethnic products has been crucial in the nascent and then the crossover phase of international marketing and product internationalization.

Diffusion of ethnic products is not managed as a single firm enters the market with a normal product but is more of a co-created and networked process of different actors from the firm and the diaspora to third party developers with elements of cooperation and competition. So, migrants can play an important role in reducing non-tariff

barriers between nations and influence the attraction of investment both from their country of origin to the host country and vice versa. Therefore, it should not be forgotten that among the multitude of criteria that evaluate foreign investors before undertaking an investment abroad such as market size, trade open, inflation, infrastructure, international reserves, natural reserves, qualityof institution, political stability, control of corruption, human development index, etc. Diaspora can also play a decisive role in attracting FDI. Thus, for example Amar Anwar and Mazhar Mug,in 2017, analyzed the role of the Indian diaspora in attracting Indian outward FDI. In recent yearsIndian foreign investment has grown significantly, making India one of the leading investors in developing countries. Authors investigate the relationship between the Indian overseas communityand OFDI in the developed countries (OECD countries) using data from 1999 to 2008.

The aim was to study whether Indians have invested in those markets where there is a larger Indian diaspora? The results of this study showed that the presence of Indian diaspora in a country has astatistically significant positive impact on the volume of Indian FDI entering that country. A ten thousand increase in Indian diaspora residing in OECD countries is associated with a 2 percent increase in the Indian OFDI to the host country. To summarize, we can say that the diaspora has amultiple role in the relationship with FDI, it is the information channel that facilitates and reducescosts for FDI, it is the channel that brings ethnic products to international markets (opens the country from isolation) is the channel that through cooperation and expansion of contacts promotesFDI and OFDI.

In a globalized world we see on the one hand an attempt to attract FDI and on the other hand a policy to promote effective cooperation with the respective diaspora. We intend to add to this extensive literature on these two phenomena an empirical study that shows how important it is toinstitutionalize the relationship with one of the most important links of this chain, such as membersof diaspora.

2. Empirical methodology

The fundamental question we seek to consider is whether the volume of FDI is influenced by diaspora institutions. The full dataset contains annual panel data for twenty countries for the period 1990 to 2020. Also, we include several control variables, specific to the partner country i, commonly used in the literature on FDI determinants. Table 1 in Appendix 1, presents the variablesconsidered in the analysis and data sources, Table 2 in Appendix 1 present the correlation matrix and the Table 3 in Appendix 1 present sources of information on diaspora institutions to create the independent variable diaspora institution.

Our panel data is balanced that means that have the same number of observations for all groups. We started our analysis by testing if our database has multicollinearity problems. Variance inflation factor (VIF) is a measure of the amount of

multicollinearity in a set of multiple regressionvariables. As long as the vif value as less than 10 the data is no multicollinearity (Hair et all.1995)We investigated the possible effects of independent variables on FDI, applying three different panel models, pool model, fixed effect and random effect model. Based on the relevant tests we concluded that the most suitable model for the analysis of our data is the fixed effect test (see Hausman test).

Fixed effect model analysis the impact of variable that vary over time and remove the effect of those time-invariant characteristics so we can assess the net effects of the independent variables on the dependent variable. The fixed effect model investigates group differences in intercepts, assuming the same slopes and constant variance across the cross-sections (countries). In the fixedmodel time-invariant variable are absorb by the intercept, so different entity has different interceptbut the same slopes and constant variance across the cross-sections (countries). We considered thiseffect, as it allowed us to capture unobserved heterogeneity across countries where it is fixed overtime. We estimate the following fixed effect panel model as well:

$$\log \text{FDI}\ it = (\alpha+\mu i) + \beta 1\ \log_mark_size + \beta 2\ \text{Infl} + \beta 3\text{Inrastruc} + \beta 4\ \text{Hum_devel} + \varepsilon it \quad (1)$$

where, i presents each country; t represents each time period (with t=1,2, . . ., T) and εit is the random error term and ui is a random variable that is part of the intercept α under the fixed effectsmodel and it is assumed that it is uncorrelated with explanatory variables.

We begin our analysis with a model of factors that we think are closely related to FDI.

In the second model we introduce our variable of interest, Diaspora Institution. Our goal through this model is to find out if there is a relationship between the commitment of the government andinstitutions towards the diaspora in attracting a larger volume of FDI. Our variable of interest is initially expressed as a simple dummy with two categories.

$$\log \text{FDI}\ it = (\alpha+\mu i) + \beta 1\ \text{DI2} + \beta 2\ \log_mark_size + \beta 3\ \text{Infl} + \beta 4\text{Inrastruc} + \beta 5\ \text{Hum_devel} + \varepsilon it \quad (2)$$

Based on the study of the institutions that each state has engaged to support the diaspora, we see that the forms and policies were different. It is understood that commitment and work are not the same how to have a dedicated office to listen to and inform immigrants, how to have a ministry for the protection of diaspora issues. Based on this, through model three and four, we want to studyif the type of institution engaged in this matter is important in the motivation of foreign investors.

log FDI it = (α+μi) + β1 DI3 + β2 log_mark_size + β3 Infl + β4Inrastruc+ β5 Hum_devel + εit

(3)

log FDI it = (α+μi) + β1 DI_1 + β2 DI_2+ β3 DI_3 +β4 DI_4 +β5 DI_5 +β6 DI_6 + β7 log_mark_size + β8Infl + β9Inrastruc + β10Hum_devel + εit

(4)

Models three and four differ from the second model only in the expression of our variable of interest. In the third model we organize our variable of interest as a dummy with three categories (0- there is no institution for the diaspora, 1- there is an institution for the diaspora at the maximum department level and 2 there is an institution at ministerial level) While in the fourth model, the variable of interest is organized in size categories (0-there is no institution for the diaspora,1- quasi governmental, 2-legislative body (e.g., High Council), 3- Sub-ministry, 4-Executive Body (an organization housed within the office of the head of the executive branch of government (e.g., under the Presidential Office), 5-Hybrid Ministry, 6- Full Ministry). Our ranking system refers tothe one proposed by Alan Gamlen, Michael Cummings, Paul M. Vaaler and Laura Rossouw in 2013. Our aim is to test whether the organization or type of institution dedicated to the diaspora affects the volume of FDI in different ways. We tested all models with fixed effect models. We choose this model based on the p value of the Hausman test but also for several other reasons. First, when the number of places is small, as in our case, the model with fixed effects is preferredto the one with random effects. Second, the places that were taken in the study were not taken randomly. This fact also favors the model with fixed effects. Thirdly, the purpose of this study is to analyze the impact of variables that change over time.

3. Data description

The data used in this study are based on several sources such as the World Bank (WB), The Global Economy, United Nations Conference on Trade and Development (UNCTAD), United Nations Department of Economic and Social Affairs (UN DESA) and European Union Global Diaspora Facility (EUDiF).

We collected data and studied the institutions dedicated to the issue of diaspora for 30 years, from1990-2020 for 10 countries in Africa and 10 countries in Asia.

We created our variable of interest after a long study of the state apparatus of each country objectof study, Country Migration Report by IOM on the issue of immigration and diaspora in these countries, "Human Geopolitics" by A. Gamlen, 2019 and data from European Union Global Diaspora Facility (EUDiF) - Diaspora engagement map. Also, an extensive literature of different authors who have analyzed specific cases has helped us to acquaint the institutions involved with the issue of emigration and diaspora, which we cite in the references. More specifically the reference for created the variable Diaspora Institution are described in Table 3 in Appendix.

Also is important to note that the state object of study have several types of institutions engaged in the diaspora issue. In such cases our index has the institution of the greatest importance.

In the selection of other control variables, referring to previous studies, we select the following variables as important factors that affect the attraction of FDI:

Market size and growth: expresses the dimensions and potential of the market, have been commonly found to exert a positive influence and statistically significant relationship. This variable expresses the purchasing power of the population and, thus, the demand. It is usually measured by means of GDP per capita (Agiomirgianakis et al. 2006; Ranjan, 2011). However, it is also possible to find an adverse effect, likely explained because of is capturing the rising costs (Walsh & Yu, 2010).

Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. This indicator is believed to reflect the stable

development of the national economy. A majority of results have shown that this factor affects FDI attraction negatively (Jadhav,2012),

Infrastructure is the foundation for production and business activities. The more developed a country's infrastructure is, the more suitable the operating environment for the business, so the lower the initial investment costs will be. In other words, a developed infrastructure has a positiveeffect on the attraction of FDI. Previous studies in general suggest that infrastructure is reflected in the criteria of telephone, Internet and telecommunication (Wich, 2012; Makhavikova, 2015; Le,2015; Le and Nguyen, 2017).

The Human Development Index (0-1) measures three basic dimensions of human development:long and healthy life, knowledge, and a decent standard of living. Four indicators are used to calculate the index: life expectancy at birth, mean years of schooling, expected years of schooling,and gross national income per capita. Human capital has been recognized in numerous studies as a means of attracting FDI. The presence of skilled, highly qualified and healthy workers suggeststhat they have high productivity and are able to perform more complex functions.

We report the descriptive statistical measures in Table 1. In this table we present the average, themedian, the minimum and maximum values, standard deviation, and the number of observations in the sample.

Variable	Obs	Mean	Std. Dev.	Min	Max
log FDI	595	20.357	2.769	2.303	26.396
DI 1	600	.039	.193	0	1
DI 2	600	.04	.197	0	1
DI 3	600	.334	.472	0	1
DI 4	600	.053	.225	0	1
DI 5	600	.218	.413	0	1
DI 6	600	.166	.372	0	1
log Mark Size	600	11.61	2.277	7.766	17.516
Inflation	583	8.361	9.573	-8.484	84.864
Hum Dev	582	.568	.118	.283	.782
Infrastructure	600	41.316	47.116	0	186.159

The first thing that stands out is the high fluctuation of FDI volume between countries. If we lookat the maximum and minimum values, a very significant difference can be seen. Specifically, of the countries I studied, the least attractive country for foreign investors is Afghanistan with the lowest level of FDI. In relation to our variable of interest, it is important noting that the main formthat governments use to support the diaspora is sub-ministry, and in second place is engagement with hybrid ministries, which combine activities for several issue at the same time. One of the main indicators to draw attention to these descriptive data is the level of inflation which shows infact that some economies suffer from hyperinflation. Hyperinflation can occur in times of war andeconomic turmoil. In fact, these countries are characterized by political and economic unrest and wars such as the case of Afghanistan, Lebanon, etc.

An indicator that should be emphasized is thehuman development index. From the min and max values, we see that there are countries with a very low index of human capital development (0.283 in Ethiopia) which must work to correct these deficits due to the importance of this variable in attracting FDI. Also, if we refer to the maximum value (0.782 in Sri Lanka), improvements are still required to reach the maximum value of the index, which is 1. The proxy for infrastructure use is mobile telephone for 100 people. So, if we compare the average value with the maximum possible, we can say that there is still room for improvement. It should be noted that the min value of this proxy is observed in many countries, but mainly in the years 1990-1993,

improving significantly over the years. Specifically, accordingto the 2020 data, the min value is recorded in Ethiopia of 38.7 and the max value in Thailand of 166.61 for 100 people.

From the descriptive data, comparing the max min and average values, we found that there are significant differences between the countries. Through the graph below, we present the volume ofFDI during the years 1990-2020 for each country.

We can see that the country that has attracted the most foreign investment from all countries under study over the last 30 years is China. Factors important in attracting FDI to other countries have also been key to China's success. China's large domestic market, low wage costs, and improved infrastructure, complemented by open FDI policies (especially the establishment of OEZs).

5. Results

In this section, we present the results of our model. In our analysis we got the log of FDI, net inflows (BoP, current US$) as dependent variable, while the other variables are used as independent regression variables. The question that arises from a panel analysis is the choice of the most appropriate model between pooled model, fixed effect and random effect model. We analyze the panel data with all three models and based on the respective tests (Hausman test and Breusch and Pagan Lagrangian multiplier test) we chose as the most suitable model for our analysisthe fixed effect model.

We start our analysis with a simple model where we include the factors that we value as essentialto attract foreign investors. As we expected all the factors as market size, that expresses dimensioned and the market potential, the level of inflation as in financial risk indicators, the infrastructure as the basis on which the business activities are built and the human capital as the source that sets financial and physical capital in motion, are statistically very important.

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4
DI_1				2.316***
				(0.487)
DI_2				1.511***
				(0.360)
DI_3				1.304***
				(0.243)
DI_4				1.352*
				(0.755)
DI_5				1.763***
				(0.337)
DI_6				1.916***

				(0.352)
log_Mark_Size	-1.663***	-0.949**	-0.805*	-0.839*
	(0.427)	(0.432)	(0.443)	(0.449)
Inflation	-0.0501***	-0.0395***	-0.0426***	-0.0397***
	(0.00778)	(0.00777)	(0.00768)	(0.00781)
Hum_Dev	32.26***	24.07***	20.68***	21.29***
	(2.986)	(3.225)	(3.570)	(3.628)
Infrastructure	-0.00814***	-0.00557**	-0.00443*	-0.00445*
	(0.00261)	(0.00257)	(0.00263)	(0.00261)
DI2		1.333***		
		(0.231)		
DI3			0.857***	
			(0.154)	
Constant	21.84***	17.01***	17.35***	17.08***
	(3.819)	(3.798)	(3.799)	(3.860)
Observations	541	541	541	541
R-squared	0.510	0.540	0.538	0.551
Number of countries	20	20	20	20
Country		YES	YES	YES

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The results of the control variables we can say that some are in line with what we expected and that support a lot of empirical study some are outside our predictions. Specifically, the role of Market Size, measured by GDP per capita differs from our expectations. Market size is one of thekey considerations for multinational companies when selecting their next FDI destination. However, the size of a country does not always translate into purchases. Purchases are made by people. These people must have income to buy. For this reason, we chose to present the market size in terms of GDP per capita and we expected that this variable would have a positive correlation with FDI. Contrary to our expectations, it turned out that market size is a statistically significant variable but related negatively in the attraction of foreign investments.

Our results can be explainedby the fact that being countries where the majority are low-income countries and our model showsan average result among these countries, our findings affirm that foreign investors do not decide to invest in these countries to trade there. The size of the market or more precisely the purchasingpotential of these markets is not a reason that motivates them in choosing the countries. Also, Walsh& Yu, in a study conducted in 2010, find a negative effect of market size in the attraction of FDI, probably explained due to the rising costs in the development countries. Contrary with our finds, L. Artige and R. Nicolini, 2010, in their paper show that regional market size, market potential and unit labor costs are significant positive

determinants of FDI inflows into three regions, Baden- Württemberg (Germany), Catalonia (Spain) and Lombardy (Italy). Even Sookram etc. 2022, which studied the factors influencing FDI inflows into the Caribbean during the period 2000-2019, confirmed the potential of market demand as an essential factor in attracting FDI. Their results showed that FDIis affected by the size of their small market, high energy costs, prone to exogenous shocks from commodity prices, natural disasters and climate change that discourage them.

Our results affirm that one of the motivating variables that influence the attraction of FDI in thesecountries is human capital. The results are in line with what we expected because an improvementin human capital means more qualified and healthy workers. The presence of more skilled workerssuggests higher productivity and involvement in more complex functions. In fact, the theoretical relationship between human capital and FDI has been demonstrated by Zhang and Markusen since1995. Similarly to our results, Pantelopoulos, in a 2022 study, showed that an educated workforcepositively affects the attraction of FDI. The author analyzed the OECD countries for the period 1960-2010 with the objective of empirically investigating the relationship between the labor force at all educational levels and FDI. The results confirmed that the different educational levels did not have the same level of importance. Tertiary education has a greater impact on the attraction of FDI.

Foreign investors when investing abroad appreciate also the infrastructure because the lack of thenecessary infrastructure means into additional costs that the investor must realize to develop his activity. Contrary to what we expected, our results confirm that infrastructure is a statistically significant variable but that negatively affects the attraction of FDI towards these countries. The proxy for infrastructure varies. In this research we use the mobile cellular per 100 people. Contraryas our result Ta et al., In 2021 showed that infrastructure is a strong variable in FDI attraction. They have explored and measured the impact of factors influencing the attraction of foreign investors in Quang Ninh province. The empirical analysis used data from a survey of 206 domesticand foreign investors in this province of Viet Nam. According to the results, the factors that havea strong positive impact on the attraction of FDI are infrastructure, public services and human capital.

The purpose of our study was actually to show if the engagement of the government to support thediaspora with institutions could also affect the volume of FDI. Thus, in the second model we introduce our interest variable DI if they affect the attraction of a higher level of foreign investmentflows. Diaspora Institution is a simple dummy that shows whether the government has an institution to support the diaspora or not, regardless of the type of institution. The results of the second model affirm that the government, by engaging in the issue of the diaspora, is contributingpositively to the attraction of a higher volume of FDI.

But we consider it necessary to go further with this analysis, because it is not the same level of engagement as simply having an office that informs and supports the demands

of the diaspora, having a department or even a ministry dedicated to the issue of the diaspora. So, the difference between the second, third and fourth model lies in the way our interest variable DI is organized. Through the second model, it was shown that the commitment of the government in supporting the diaspora has a positive effect on the volume of FDI. In the third model, our variable of interestis organized as a dummy with three categories where level 0 indicates that the government has no institution for the diaspora, level 1 indicates that the government has a representative institution ordepartment and level 2 the government has an institution at ministerial level. While in the fourth model we have made an even more detailed division for the type of the government's engagementin the issue of diaspora support. The purpose of moving from the second to the third and fourth model is to study firstly if the engagement of the government with institutions for the economy isaffecting the volume of FDI and secondly, we want to show if this influence changes according tothe type of engagement. In other words, we expect that a country that engages in the issue of the diaspora at the ministerial level will have made greater institutional and legal reforms and thereforehave a greater impact than a country that supports the diaspora with a quasi-governmental institution.

The results confirm that despite the institutional organization, the engagement of the governmentin support of the diaspora with any type of institution has a positive effect on attracting a higher volume of foreign investment. In other words, the state through reforms and programs undertakento create a climate of stability and motivation for members of the diaspora and especially by institutionalizing this relationship is contributing at the same time in expanding relationship with other countries and improving the image of the country in the eyes of foreign investors motivatingthem to invest in them.

To summarize, we can say that our model is a good model (F-test) and the Foreign Direct Investment inflows are explained as 54% by the independent variables. Our interest variable (Diaspora Institution) has a positive effect on FDI regardless of the type of institution engaged inthe issue.

6. Conclusions and Recommendations

Against the background of increasing interdependence between states, integration into the global economy and expansion abroad has become the focus of national policies. To break the walls of isolation, a window to the world is the diaspora. In recent years, in order to strengthen the diasporaas actors for development, state structures have been engaged in addition to social, cultural and humanitarian structures. Our results provide support for the solution of many governments which are paying increasing attention to the diaspora community. We showed that their commitment to the issue of emigration and the diaspora is important not only to better channel their contributionsto the economic development of the country but also to attract higher FDI flows. Both diaspora and foreign investors can contribute to development.

On the one hand, the diaspora represents the information channel for the world, knowing the country, the legislation, the language, the culture. On the other hand, the governments engaged inthe issue of the diaspora have undertaken a series of reforms, the implementation of which has imposed and brought about a radical change, both in the legal framework, in the economic reforms,favoring the business climate. Changing political and economic panorama can motivate foreign investors who also contribute to the country's economic growth. Economic growth means improved living conditions and this can reduce incentives to migrate. So even though these two phenomena are completely different, they should be considered as two sides of the same coin that both contribute to meeting a country's needs for financial capital, technological innovation, humancapital development, overcoming relative isolation from global flows of trade and where the handof the state with the power given by law can give life to this relationship.

Regardless of the economic and political problems of the countries subject to the study, we empirically showed that the countries that are engaging in the diaspora issue are improving the climate for doing business and attracting a higher volume of FDI. For more the results confirm that despite the institutional organization, the engagement of the government in support of the diaspora with any type of institution has a positive effect on attracting a higher volume of foreigninvestment.

So, our results support the countries that have taken initiatives to create bridges of cooperation with the diaspora. This partnership is a hope to change the image of the country in the eyes of the international community and to attract more of their attention.

Therefore, our results support the countries that have taken initiatives to create bridges of cooperation with the diaspora. This partnership is a hope to change the image of the country in the eyes of the international community and to attract more of their attention. Let these results be not only a message for policymakers, who we recommend to intensify policies and programs for building cooperation with their diasporas, but also a reflection on the complexity of this long-term process, which has a greater chance of being successful if is based on good communication, with the common belief that all parties benefit from this cooperation. Having said that, we understand that the regulatory framework and institutional capacities are important, but they cannot necessarily generate effective cooperation. What is essential is ensuring the applicability of the laws closely monitored by the competent authorities and a coordination of functions between the institutions without disconnection between the institutional chain We showed the statistically significant positive impact of diaspora institutions, but obviously this analysis can be expanded by including a larger number of countries and above all by including a wider range of variables such as variables related to the political situation in country, to take into consideration the effect of the time of policy implementation, to see the effect of the size of the diaspora on the initiatives of the country of origin to institutionalize this relationship, etc.

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